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Problems and Prospects in Communist China

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE
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The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, the Army, the Navy, the Air Force, and NSA.

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Communist China: General

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PROBLEMS AND PROSPECTS IN COMMUNIST CHINA

THE PROBLEM

To establish where Communist China now stands in its domestic situation and foreign policies, to identify the major problems it faces, and to estimate probable developments over the next two years or so and, where possible, further ahead.

CONCLUSIONS

A. Communist China's domestic situation appears slightly improved from its recent grievous state. To a considerable extent this improvement reflects relatively moderate, pragmatic policies which have replaced the excesses of the "leap forward" and commune programs. With good luck and good management, the economy could within the next couple of years resume a rapid rate of growth approaching that of the First Five-Year Plan, though it is likely to fall short of this. A critical question over the next five years will be whether the Chinese Communist leadership will sustain a pragmatic course in the face of its strong ideological compulsions. Unsound doctrinaire policies, bad weather, and other unfavorable factors could combine to cause complete economic stagnation. *(Paras. 1–6, 11–17)*

B. Though discontent will persist and could increase if the economic situation deteriorates, we do not believe that dissidence will pose any serious threat to the regime in the next two years. *(Para. 10)*

C. Communist China's economic difficulties and the drastic reduction of Soviet cooperation have lessened the relative effectiveness of Communist China's military establishment. Nevertheless, Peiping still has by far the strongest Asian army, and this is sufficient to support the kind of relatively cautious foreign

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policies Peiping has actually been conducting or is likely to conduct during the next two years. It will almost certainly not have a militarily significant nuclear weapons system until well beyond this period.[1] *(Paras. 18–23)*

D. Peiping's dispute with Moscow springs from basic issues of incompatible national and party interests, and the Chinese Communists show no signs of relenting. Public polemics may be damped down on occasion, but we do not believe a fundamental reconciliation will take place. The Chinese will almost certainly continue to attempt to expand their influence at Soviet expense in the underdeveloped countries and to turn Communists throughout the world against Khrushchev and his policies. A formal schism could occur at any time, although the chances are reduced by each party's great anxiety to avoid the onus of having split the world Communist movement. *(Paras. 24–30)*

E. Communist China's foreign policy will probably continue generally along current lines. Peiping will remain passionately anti-American and will strive to weaken the US position, especially in east Asia, but is unlikely knowingly to assume great risks. China's military force will probably not be used overtly except in defense of its own borders or to assert territorial claims against India. Subversion and covert support of local revolutions will continue to be Peiping's mode of operation in southeast Asia and, to a necessarily more limited degree, elsewhere in Asia and in Africa and Latin America. *(Paras. 31–40)*

DISCUSSION

I. THE ROAD TO 1963

1. The situation in Communist China is a little better than it has been during the past two years. However, the effects of ill-advised policies and the almost total loss of Soviet support, intensified by a long spell of bad weather, have left a China that is far different from the one which, five years ago, so exuberantly undertook the risks of the economic "leap forward" and of assertive independence of Moscow.

2. By 1958, the Chinese Communist leaders had concluded that the country's rate of economic progress was unsatisfactory. Despite impressive growth in the industrial sector, China's agricultural produc-

[1] This question will be discussed in detail in NIE 13-2-63, "The Chinese Communist Advanced Weapons Program," (TOP SECRET) to be published soon.

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tion had not increased sufficiently to feed a growing population, repay the Soviet credits, finance current imports, and provide capital for rapid industrial development. China's leaders apparently concluded that they could meet their economic problems only by a radical departure from Soviet techniques of economic development. Deciding to rely chiefly on manpower, their only readily available surplus resource, they suddenly and summarily organized the peasants in mid-1958 into huge super-collectives—communes—that were to regulate every phase of productive activity in the rural areas. At the same time they embarked on an all-out, frenetic drive for industrial and agricultural development under the banner of "the great leap forward."

3. This sharp divergence from the Soviet model was part and parcel of a developing Sino-Soviet dispute over a broad spectrum of military, economic, diplomatic, and ideological questions. By mid-1958, the Chinese leaders had apparently become convinced that the USSR did not intend to satisfy Chinese desires respecting advanced weapons, industrial development, and great power status. They initiated sharp new departures not only in economic development but in military programs. What was particularly galling to the USSR was Peiping's growing ideological assertiveness. Communist Chinese leaders became increasingly critical of Moscow's international policies. By the end of 1960 the USSR had responded by withdrawing most of its technicians, Soviet deliveries were declining sharply, and the rift between China and the Soviet Union had become wide and deep.

4. Communist China has paid a staggering price for these assertions of Chinese political and economic independence and the decisions of its leaders to force the rapid emergence of a great new China by radical means. The new Chinese theories of development created economic and psychological chaos. The drastic reduction of Soviet cooperation critically increased the regime's difficulties, and led to technical breakdown and disorganization in industry and drastic setback to Peiping's modern weapons programs. By the end of 1962, the nation's economy was generally no further along than it had been at the end of 1957. The Chinese people have spent five strenuous, painful years on a treadmill. And whereas the regime had entered 1958 with a great reservoir of respect and popular support, it now has to call upon a weary and disillusioned people to move the country forward.

5. The past several months have shown signs of improvement. The food situation eased somewhat in the summer of 1962, as a result of better weather, agricultural decentralization, and an increase in private plots and "free markets." There has been a rise in the production of agricultural support goods (e.g., tools, pumps, and fertilizer). These developments, and others such as the one-sided victory over Indian forces on the Himalayan border, appear to have improved popular morale somewhat and have probably reduced the dissidence potential.

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6. Peiping's leaders have entered 1963 in a mood of some confidence. Although they admit to having set overambitious goals and committed other errors, they evince no doubts about the validity of Marxism-Leninism or the correctness of their interpretation of it. They place the major blame for past disasters upon cadre errors, unprecedentedly bad weather, and Soviet sanctions. They believe that by surviving these trials they have demonstrated the soundness of their regime. Communist China can now recover on its own, they apparently believe, and without the need to rely on external aid from an untrustworthy partner.

II. PROSPECTS

A. Political

7. The leadership elite of the Chinese Communist Party has not survived the crises of the past five years unscathed. In 1959 the Minister of Defense and the Armed Forces Chief of Staff were removed from office and disgraced. A few other key figures appear to have been shoved quietly into the background. A number of provincial First Secretaries and other middle-level officials have lost their jobs. At the lower levels of the party there has been a considerable increase in cynicism and a notable loss of elan.

8. The regime nevertheless remains under the control of essentially the same group of Long-March veterans who have led Chinese communism since the mid-1930's. Ultimate power still rests with Mao Tse-tung, although basic decisions are probably reached by leadership consensus. It is unlikely that the composition of the leader group will be seriously altered during the next two years or so, although the actuarial odds will be increasingly against this group—nearly all of whom are in their 60's or 70's. If Mao, who will be 70 this year, should die, he would probably be succeeded by Liu Shao-ch'i, the present Chairman of the government and Mao's designated heir, but Liu would not enjoy Mao's prestige and pre-eminence over his colleagues.

9. The Chinese Communist regime will almost certainly continue to adhere to its own brand of communism and to remain very much anti-US. The character and direction of its domestic policies over the next two years are, however, less certain. Beginning in 1960, Chinese leaders have relaxed pressures and controls and removed many of the coercive features of the commune and "great leap forward" programs. In the past few months they have begun to intensify political pressures and controls aimed at increasing central direction of the economy and curbing private activities. This recent behavior raises a question of the extent to which they may reverse over the next few years the more permissive and pragmatic courses which have helped alleviate the consequences of Peiping's earlier policies.

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10. Any significant rise in public dissidence in the near future is unlikely. The bulk of the people, especially the four-fifths who constitute the peasantry, seem prepared to work stoically for very modest, direct rewards, as they have for centuries. For the most part, they will probably continue neither to combat nor support the regime, but will strive to ignore it. Judging from the limited available evidence, they will probably remain more interested in personal survival than in revolution. The regime will have somewhat greater difficulty with the young people, who are embittered by current drastic restrictions in educational opportunities and frustrated by very limited and arbitrarily assigned job opportunities. Dissidence tendencies would increase if the regime pushed political and economic controls too harshly or too far or if food supplies decreased sharply. We doubt, however, that conditions will deteriorate so far in the near future as to precipitate widescale resistance. Taipei is unlikely to receive decisive popular support for any military efforts short of a major invasion which had established momentum. Dissidence among national minorities (e.g., in Sinkiang) will almost certainly persist but remain localized.

B. Economic [2]

11. Communist China has the potential for substantial economic growth. It has good supplies of most of the natural resources needed by modern industry and it has a huge and hard working labor force. The much greater productivity of Japanese and Taiwanese fields indicates that Chinese agricultural output could be considerably increased. Properly managed, the economy of the Chinese mainland could provide a continually improving standard of living for a number of years to come, in spite of a population growth rate that may again rise to as much as 2.5 percent a year.

12. During the past five years, however, Communist China's economy has been grievously mismanaged. The leadership has been handicapped by inadequate economic training and experience, limited by a narrow doctrine, and misled by fanaticism. The Second Five-Year Plan was abandoned in its infancy in favor of the uncoordinated frenzy of the "leap forward." In addition, several consecutive years of very bad weather and the abrupt withdrawal of Soviet economic and technical cooperation further upset the economy.

13. Following the chaos of the past five years, Peiping has apparently decided to go ahead on schedule with a Third Five-Year Plan to cover the years 1963–1967. Since the plan is hardly beyond the preliminary stage and even the annual plan for 1963 has apparently not been formulated, the chief significance of announcing the Third Plan at this

[2] For details, see Annex A.

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time is as a signal that the regime is, for the moment at least, intent upon returning to a systematically planned economy. The one big deviation from standard Communist practice is the order of priority for planning and investment: first, agriculture and those branches of heavy industry which support agriculture and national defense; then light industry; and finally industry in general. This stress on agriculture marks a belated recognition that greater agricultural investment is necessary to enable China to feed its people and that this is a prerequisite to a vigorous and rapidly growing heavy industry.

14. In any event, the outcome of the race between growth in agricultural production and growth in population will be constantly in doubt. In 1962, population stood at 60 million above the 1957 level, while grain production had no more than regained the 1957 level. To succeed in agriculture over a period of years, Peiping must not only minimize the depressing effects of collectivization and lowered incentives but stimulate production with increasing amounts of fertilizer, improved seed, better disease and insect control, better water conservancy, and more modern tools and techniques. It takes time and money to develop these resources and utilize them effectively. In the meanwhile, the critical factor may well prove to be Peiping's management of the peasantry. The outlook is not bright in this respect. Communist agricultural management has demonstrated itself in China, as elsewhere, to be a damper on productivity.

15. In industry there has been a modest improvement in performance in recent months, according to the scanty evidence available. The current stress on quality controls, coordination among industries, and the gearing of output to actual needs will, if continued, probably place industry on a sounder, more rational basis. The need for goods to provide incentives for labor and items for export has induced Peiping to give light industry priority over those branches of heavy industry that do not directly support agriculture or national defense. What is needed for a large increase in light industrial production is not so much new investment as reactivation of presently idle capacity; this, in turn, depends on increased supplies of raw materials from agriculture.

16. The margin between success and failure will remain so slim, and the variables so great, that any estimate of Communist China's overall economic future must be general and tentative. If the regime continues to pursue relatively moderate and rational policies and if it has reasonably good luck with the weather, the Communist Chinese should enjoy continued, though modest, recovery during the next year or so. This will result largely from returning idle capacity to production, and it will probably be accompanied by improvement of product quality, more effective coordination of the allocation of resources, and better maintenance and repair of equipment. Over the longer run, the imponderables increase, and a wide range of developments is well within the limits

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of possibility. We believe that the upper limit of what Peiping can achieve over the next five years, with the variables generally favorable, is a resumption of substantial economic growth approaching that of the First Five-Year Plan.

17. Of the variables which, unlike the weather, are subject to Peiping's control, the one which probably is of critical importance to the economy is national economic policy. The present order of economic priorities and the use of material incentives to stimulate production run against the grain of Peiping's doctrine. Both the strong Chinese craving for "modernity" and the doctrinaire Communist compulsion toward rapid industrialization militate against lasting primacy for agriculture. As soon as the Communist Chinese leaders judge the agricultural foundation to be adequate, they will almost certainly shift their emphasis to industrial expansion, and they may do so prematurely. Moreover, to renew a program of general development entailing large capital expenditures would require reimposition of stringent controls over consumption, distribution, and procurement of agricultural output. The regime may not be successful in increasing its take from the hard-pressed countryside, and, even if it is, the substitution of political pressures for economic incentives could again depress agricultural output and stimulate dissension against the regime. With this in mind, together with the possibility of adverse trends in such other variables as crop weather and foreign economic relations, we believe that the regime's economic achievements are likely to fall short of the upper limit described in the preceding paragraph. Furthermore, it is possible that a combination of unfavorable developments could result in economic stagnation which in time could critically erode the unity and strength of the regime.

C. *Military* [3]

18. The modernization of the armed forces, which was progressing steadily until about 1960, has practically ended, except for the continued introduction of radar and certain other electronic equipment. No advanced aircraft, submarine components, or other items of advanced equipment have been received from the USSR in the past two and one-half years, domestic production of fighter aircraft and submarines has ceased, and inventories are being reduced by deterioration and cannibalization. During the depths of the domestic decline, the military forces suffered shortages of even routine items of supply, but this condition has apparently been alleviated in the past year. In general, the army has been less affected than the other services.

19. Peiping almost certainly intends to achieve domestic production of all necessary weapons and materiel for its armed forces. It has a

[3] Annex B sets forth Order of Battle figures for Chinese Communist air, naval, and ground forces.

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long way to go before reaching this goal, however. The Chinese at present are probably unable to produce even MIG–17's entirely by themselves, and it will be a number of years before they can design and produce more advanced types of military aircraft. Indeed they may have chosen instead to concentrate their limited resources on missiles. Their wholly domestic naval shipbuilding capacity is likely to be restricted to surface ships of the smaller types during the next few years.

20. Our knowledge of the morale of the Chinese Communist forces is minimal. From Chinese documents we know that morale was low during the depth of the food shortages (late 1960, early 1961) when the troops were underfed and overworked and were distressed by the even greater suffering of their families. Measures taken to ease the situation of the troops and to provide special rations to their families appeared to improve morale beginning in the latter half of 1961. The Chinese troops in the recent Sino-Indian border fighting displayed no indication of poor morale. Air force and navy units have not been similarly tested, however, and the decreasing effectiveness of their equipment, along with the inadequacy of training caused by fuel stringency and lack of spare parts, may have lowered morale in these services.

21. Additionally, there have been problems at top command levels, where the military policy of the party was apparently challenged. However, dismissal of Defense Minister P'eng Te-huai and the strengthening of security measures within the armed forces appears to have insured subservience to the party.

22. Peiping's military policy has always been characterized by caution in undertaking initiatives in the face of superior power. Hence the decline in the relative effectiveness of its military equipment and weapons is likely further to temper Peiping's policy, especially in circumstances where it might confront US armed power or US-equipped Asian air forces. However, the Chinese Communist Army will continue to be the strongest in Asia and to provide a powerful backing for Chinese Communist foreign policy. The Sino-Soviet dispute will probably place additional demands on Chinese military dispositions and capabilities, since one of the consequences of China's new "independence" from the USSR will be the need to keep a closer watch than previously on the long China-Russia border—which the Chinese still consider a "difficult" and "unsettled" question.

23. *Advanced Weapons.*[4] Peiping appears determined to achieve a nuclear and ballistic missile capability, and in time it will almost certainly do so, though it is not likely to acquire a militarily significant system until well beyond the period of this estimate. In the shorter term,

[4] This subject will be treated fully in the forthcoming NIE 13–2–63, "Communist China's Advanced Weapons Program," (TOP SECRET).

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the Chinese Communists probably hope to produce and detonate a nuclear device as a step toward developing this capability and in the expectation that this would boost morale at home, strengthen the regime's claim to world power status, and inspire fear in its Asian neighbors. For some time to come, even a limited effort in the nuclear and missile fields will severely tax the regime's economic and technical resources.

D. Sino-Soviet Relations

24. We believe that Peiping's continued willingness to challenge Moscow's leadership in spite of the costs and risks involved is based principally on the following elements:

a. A conviction that Moscow's policies are inimical to Communist China's national interests, and in particular that Moscow wishes to retard or prevent Communist China's development as a leading world power. The Chinese Communist leaders see Moscow's unwillingness to confront the US as involving the postponement of such national goals as the seizure of Taiwan. These differences are compounded by the xenophobic emotions inherent in the Chinese racial, nationalistic, and cultural pride and practices.

b. A determination that Peiping must be accepted as an equal partner in the formulation of Bloc policies.

c. A conviction that Moscow is becoming increasingly revisionist and bourgeois, abandoning classic revolutionary goals and destroying the militancy of the world Communist movement. The Chinese are particularly outraged at what they interpret as attempts to temporize with the US arch-enemy.

d. A conviction that in the present historical stage the victory of communism will be won chiefly in the underdeveloped areas of the world, and that the militant "path of Mao Tse-tung" provides the best blueprint for the struggle in these areas.

e. A conviction that Moscow's "revisionist" policies are unacceptable to significant elements in other Communist parties (particularly those parties out of power) and even in the Soviet Party itself. This factor, together with restiveness in many parties to Soviet domination, probably nurtures the conviction of the Chinese Communist leaders that they will inevitably prevail.

25. The present Sino-Soviet relationship can be characterized as one of *de facto* break. The two regimes have long been at odds on a wide range of issues. Party and state contacts between them are minimal. They are engaged in competitive proselytizing within the world Communist movement. During the past year, polemics have become increasingly bitter and explicit. There are even some indications of growing tensions along the Chinese-Russian borders.

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26. Nevertheless, both parties have been at pains to avoid a formal break.[5] Each continues to preach the unity of the Communist movement. This is in part a device to throw on the other the blame for the disunity now apparent; both parties wish to avoid a situation which might involve a formal renunciation of the alliance and to avoid the onus for having forced such a break if it does in fact ensue. They share a mutual concern for the advantages that a formal break would give their common enemies, and for the damage it would do the world Communist movement. Additionally they wish, in view of their long common border, to keep some limits on hostility. Both sides probably hope that eventually, perhaps after the departure of the rival leadership, the other will see reason and make the critical concessions necessary to restore unity.

27. Bilateral Sino-Soviet discussions of differences may take place in the immediate future, but in any discussions that transpire the Chinese are likely to be truculent and assertive. Moscow will endeavor to temporize and avoid a dramatic and adverse denouement of the Sino-Soviet conflict, but will feel obliged to react forcefully if pushed hard enough. Thus a formal break is possible. It is also possible that at any time negotiations may result in a temporary damping down of the public aspects of the dispute, but the fundamental issues will persist. Sino-Soviet relations will continue to be plagued with tensions that will lead to continuing estrangement and have correspondingly adverse effects for Bloc and international Communist unity.

28. The practical effects of the dispute on Communist China will continue to be serious. China's industrial plant and military establishment will continue to suffer from lack of Soviet cooperation. Petroleum products now make up about half of China's imports from the USSR, and a further cutback here, especially in aviation fuel and high quality lubricants, would for a time seriously reduce Peiping's military capabilities. A cutoff of spare parts for Soviet equipment would also handicap both military and industrial progress. New foreign and domestic sources of supply could, however, probably be developed, in some cases fairly rapidly.

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[5] Some confusion has surrounded assessments of the Sino-Soviet "break" and of its consequences. This paper seeks to make the following distinctions:

1. A break already exists in Moscow-Peiping relations—and may have existed since at least 1960: this we call a *de facto* break (paragraph 25).

2. Most discussions of whether or not a Sino-Soviet break will occur have been directed, in our view, to what should be called a *formal* break. Such a formal break could take many forms: unlike the Soviet-Yugoslav situation of 1948, there is, technically, no international Communist body from which to expel the CCP, or the CPSU. There could, however, be a severance of party relations, a formal and specific denunciation (possibly emanating from separate international Communist conferences), or any circumstances in which at least one of the protagonists states officially that a formal break now exists.

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29. Continuing estrangement will almost certainly cause Khrushchev increasing embarrassment within the CPSU, and also lead to more competition for adherents and influence throughout the world Communist movement, with China tending increasingly to assert itself as a rival center of truth, authority, and example. Peiping already appears to have displaced Soviet influence in North Korea. North Vietnam will continue to attempt to profit from its "neutralism," but it appears to be drifting toward Peiping. In Cuba, it is likely that the Chinese posture encourages Castro to reject Soviet advice which conflicts with his own predilections. Peiping will press its campaign to win over the leftist militants throughout non-Communist Asia, Africa, and Latin America, lining up the *ad hoc* support of parties where it can and settling for splinter factions elsewhere, e.g., Brazil. Further Chinese gains are probable in the Japanese and Indonesian Communist parties, at the expense not only of pro-Soviet factions but of Soviet interests and influence in those countries. We definitely do not expect the balance in the world Communist movement to shift to Peiping in the next two years—or, perhaps, ever.

30. Peiping may attract enough adherents in the underdeveloped areas of the world to cause the Soviets to adopt a somewhat more militant public posture in these areas, in an effort to outbid the Chinese for the support of selected revolutionary movements and to prove themselves true Marxist-Leninists. However, the USSR's actions in the Far East (as elsewhere) will almost certainly continue to spring principally from considerations of Soviet security and interests, not the status of relations with Peiping. Indeed, even if there were a formal Sino-Soviet break, the USSR would almost certainly intervene in any US–Chinese hostilities which threatened to establish a non-Communist regime in China along the USSR's borders.

E. Foreign Affairs

31. Peiping is engaged in a struggle with Moscow for influence in the Communist Parties of the underdeveloped nations of Asia, Africa, and Latin America. The Chinese Communists believe that they are uniquely fitted to lead this major portion of the world's peoples into communism because of their own experience, their correct interpretation of Marxism-Leninism, and their status as a nonwhite, non-European people who have been victims of imperialism. According to Peiping's reasoning, when these nations are brought into the "Socialist camp," the Western capitalists, deprived of their captive markets, will be unable to retain their positions of power, and socialism will triumph.

32. Peiping recognizes that this is a long-term objective which at present it lacks the capability to bring about. It can provide very little material aid to Communist revolutions except in countries on which it borders, e.g., Laos. Thus a limited and somewhat opportunistic policy

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is followed, with the aim of reducing the US and Western presence in Asia and (with lesser priority) the rest of the underdeveloped world.

33. Peiping's foreign policy objectives can be roughly distinguished by the amount of risk the regime is prepared to take to carry them out. The obvious first rank objective is the preservation of the regime and the protection of its existing boundaries. For these purposes Peiping is willing to go to war, almost regardless of the odds. If US or SEATO troops approached its borders through Laos or North Vietnam, Peiping would almost certainly be ready to commit its forces openly, unless in the particular circumstances it saw greater advantage in more covert military operations. The acquisition of Taiwan falls in the second rank of objectives—those for which Peiping is fully prepared to use overt military force, but only when the prospects of success are judged to be high. To achieve this goal, Peiping is prepared to run fewer risks and is particularly anxious to avoid direct conflict with the US. Peiping almost certainly will not attempt to seize by military force either Taiwan or any of the major offshore islands which it believes the US would help Taipei to defend.

34. For its broader and longer range goals of spreading communism throughout the underdeveloped world, Peiping is probably not prepared to accept any substantial risk, although it must be noted that Peiping tends to estimate the risks involved in supporting "wars of national liberation" much lower than does Moscow. Peiping apparently does not intend to undertake overt conquests of foreign lands in the name of communism, but intends to let indigenous revolutionaries do the fighting and the "liberating." Peiping is prepared to train foreign nationals in guerrilla and political warfare, and will back revolutionary movements to the extent of its limited capabilities with equipment, funds, propaganda, and support in international affairs.

35. Peiping's approach to world affairs is strongly influenced by Chinese nationalism. Chinese nationalistic feelings have been an asset to the regime domestically and have shaped certain courses of foreign policy quite apart from, and sometimes contrary to, the interests of communism. The Sino-Indian confrontation in the Himalayas is a case in point. Here, Chinese national interests and motivations took precedence over the interests of the Indian Communist Party.

36. During the next two years, Peiping will remain active in southeast Asia. In Laos, Peiping will continue to encourage and aid North Vietnamese and Pathet Lao efforts to dominate the country. There is already a Communist Chinese presence in the country, and the nucleus of a Chinese-built road network is designed to increase ties to mainland China. These roads could also facilitate the movement of Chinese troops if an eruption of fighting in Laos were to bring US or SEATO forces into the area. Peiping will encourage and support subversive

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activities in Thailand, and will probably try to exploit racial and other tensions in the emerging Federation of Malaysia. In some parts of southeast Asia, the overseas Chinese provide an instrument for Peiping, but they are unpopular in the host countries and in many areas appear to be less responsive than formerly to Peiping. Peiping's long-range goals almost certainly envisage the gaining of dominant influence over the area and the exploitation of its economic riches.

37. Communist China's policies toward its two greatest Asian neighbors, India and Japan, are likely to continue along approximately the present lines through the next two years or so. The Chinese Communist leaders wrote off Nehru some time ago as a bourgeois nationalist whose usefulness to them has passed and who therefore need no longer be courted. They now are aiming to diminish India's stature as an alternative model of development and to undermine its status as a leader of the nonaligned and Afro-Asian blocs. They almost certainly have no intention of invading India beyond Chinese-claimed territory during the next two years, though they will respond vigorously to anything they consider a provocation. In any case they will carry on a continuous political campaign against the Indian leadership. In the case of Japan, Peiping will simultaneously strive to gain dominant influence in the Japanese Communist Party; nudge the Socialists and other leftists into more militant and anti-US courses; bid for Japanese businessmen's support, by dangling trade prospects before them; woo the Japanese public with propaganda and people-to-people diplomacy; and demand recognition from the existing Japanese Government.

38. Communist China will continue to exert considerable influence in Asia, almost regardless of developments in its domestic and foreign policies. The depressed conditions of life in China have somewhat tarnished the image of China held widely in Asia. However, this effect will probably prove short-lived, especially if mainland China regains some of its former economic momentum. More important, fear of Communist China will almost certainly continue and may grow. Even now, the policies of several Asian countries, especially Burma and Cambodia, are conditioned in important measure by desire not to provoke Peiping.

39. Fear will also be increased by detonation of Communist China's first nuclear device, though the psychological impact will not be as great as would have been the case had the Chinese detonation come suddenly a few years ago. Initially at least, most Asian governments will make new and most earnest inquiry into US intentions for the defense of east Asia and the western Pacific.

40. Peiping's intense anti-Americanism is deeply rooted both in Communist doctrine and in militant Chinese nationalism. This attitude will almost certainly persist as long as the present group of leaders remains in control, and there is no reason to anticipate a softening by their suc-

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cessors. Peiping remained antagonistic toward the West even in the winter of 1961–1962, when the regime's fortunes were in many ways at their lowest ebb and it had fears for its own security. The regime might make minor concessions for expediency, but in the foreseeable future it will almost certainly not abandon its basic anti-American attitude.

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ANNEX A

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ANNEX A

ECONOMIC

I. ECONOMIC PERFORMANCE IN 1962

1. In 1962, the moderate economic policies adopted in the winter of 1960–1961 were continued. Private activity in agriculture and in rural trade was still permitted. Major industrial goals included the expansion of production to support agriculture and the expansion of output in light industry, handicrafts, and the mining and timber industries. Emphasis was placed on improvement of quality, on cost reduction, on increases in output per worker, and on better care of equipment.

2. The communique issued after the 10th Plenum of the 8th Party Congress, which met secretly in Peiping on 24–27 September 1962, suggests that the retrenchment and consolidation prevailing in 1961 and 1962 will be generally continued for the time being, but that some tightening up of discipline in economic affairs is considered necessary to direct and mobilize resources as a condition for a more organized development effort. To these ends, the party appears to have decided (a) to retain recent emphases on more conservative management policies for industry, policies which are similar to those that prevailed in 1957; (b) to retain the "leap forward" and "communes," at least as concepts; and (c) to permit no further retreat in collectivization of agriculture, and as a corollary, to restrict private "capitalist" tendencies in the countryside.

3. Economic information, either officially released or independently acquired, continues to be extremely fragmentary. Official claims note advances in some areas of production in 1962; refugee, diplomatic, and traveler reports indicate improvement in the supply of some foods and other consumer goods; and weather data suggest slightly better growing conditions during the year for the country as a whole. These bits and pieces, together with Peiping's more optimistic outlook since September, suggest moderate improvement in an extremely difficult situation. Even with improvement in 1962, serious problems still remain in every major sector of an economy that probably is no more productive than it was in 1957.

A. Agriculture

4. A slight increase in production of grain appears to have occurred in 1962,[6] but from 1960 and 1961 levels which were abnormally low. Production of grain in 1962 is estimated to have been on the general order

[6] Our estimates of output are based primarily on weather data, although the probability of somewhat larger acreage of fall grain crops and slightly increased supplies of chemical fertilizer also have been taken into consideration.

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of the 185 million metric tons harvested in 1957, when the population was about 10 percent smaller. The average diet in the 1962–1963 consumption year has probably improved above that of the previous consumption year, largely as the result of increased production on private plots. The food situation remains stringent, but no longer desperate.

5. The expected level of grain imports by China in the 1962–1963 consumption year (July–June) suggests that domestic production and stocks are far from comfortable. Contracts have already been signed for delivery of about 3.3 million metric tons of grain during the first six months of 1963—about the amount imported during the same period of 1962. We estimate that five million tons of grain will be imported during the 1962–1963 consumption year. This is a million tons less than in the previous year but still amounts to about four percent of total food grain consumption. By comparison, China exported about one million tons of grain in 1957.

6. The acreage planted to cotton in 1962 was about half that planted in 1957, and the output was correspondingly only about half the 1.64 million tons produced in 1957.

B. Industry

7. In 1962, the Chinese Communists seem to have achieved moderate success in industry. Compared with 1961, there appear to have been increases in the output of priority goods such as chemical fertilizer, some farm implements, and many types of light industrial and handicraft products. Output per employed worker probably increased somewhat, although in large part this resulted from laying off excess labor and thereby adding to the problem of unemployment. Technical and managerial personnel were accorded greater prestige and responsibility. Problems of quality, cost, and maintenance of equipment eased somewhat, but still persist as obstacles to industrial efforts.

8. The available evidence, which is fragmentary, suggests that total industrial production in 1962 was about equal to that of 1957, or roughly half the 1959–1960 peak. Production of agricultural chemicals, some farm equipment and tools, and a number of light industrial products was considerably above the level of 1957, but production of the machine building and textile industries was below that of 1957. Production of steel and electric power may have been at roughly the level of 1958.

9. Shortages of food for industrial workers, the insufficient supply of agricultural raw material, and the regime's shift to priorities in favor of agriculture account for only part of the difficulties in industry. In addition the industrial sector has been severely damaged by the excesses of the "leap forward," which produced neglect and abuse of equipment, shoddy construction, and wasteful imbalances in the capacity of inter-

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dependent enterprises and industries. Greatly compounding all these problems was the withdrawal of Soviet technicians, the drop in Sino-Soviet trade, and the drying up of opportunities for study in the USSR and Eastern Europe. The cumulative effect of these handicaps has been serious.

10. Many industrial plants are producing far below capacity. The reason for this situation in light industry is clear: the inability to obtain the necessary raw materials from agriculture. The explanation for idle capacity in heavy industry is more complex. Some heavy industrial plants—for example, aircraft, shipbuilding, truck, and chemical fertilizer plants—are producing below capacity because of the lack of spare parts, key components, raw materials, or technical expertise. These deficiencies exist in the plants themselves or in industries supplying components and raw materials. In addition, the drastic cutback in the investment program and the sharp decline in industrial output has lessened the need for basic heavy industrial items such as steel, electric power, construction materials, and some types of machinery. In the industries supporting agriculture, however, especially the chemical industry, additional plant and managerial-technical personnel are sorely needed.

11. We believe that factories producing military equipment have been able barely to keep up with peacetime attrition on some important items of military equipment. Production rates at some existing facilities may have recovered somewhat from the low levels of 1960–1961, but except in the electronic field we believe that little or no headway was made in the program to modernize the equipment of the armed forces. Almost certainly, no significant additions were made to the capacities of industries producing conventional armaments.

12. It is estimated that the total availability of petroleum products in Communist China in 1962 was slightly less than in 1959, the last year for which there is reliable data, but supplies apparently were adequate to meet the essential needs of both civilian and military consumers, though on an austere basis. Of the total supply, about 70 percent was produced domestically, as compared with 50 percent in 1959. Communist China, as far as is known, has not produced aircraft fuels except on a trial basis, and continues to rely on imports from the USSR. The Chinese, however, have the capability of producing jet fuel, although such production would necessarily reduce output of other petroleum products, and difficulties with quality probably would be encountered. China probably does not have the capability to produce high-test aviation gasoline and certain high-quality lubricants.

C. *Foreign Trade*

13. The reduction in agricultural products available for export, the deterioration in Sino-Soviet relations, the cutback in investment, and the decline of industrial output have combined to lower China's total

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volume of trade and to alter its direction and composition sharply. Total trade in 1962 may have amounted to as little as $2.5 billion, compared with $4.2 billion in 1959. Trade with the USSR declined from a peak of $2.0 billion in 1959 to perhaps as low as $600 million in 1962. Imports of petroleum products, almost all from the USSR, declined from 3.2 million metric tons in 1961 to 1.9 million tons in 1962, although imports of aircraft fuels and high-quality lubricants in 1962 continued at the level of 1961. The regime is now concentrating on imports of foodstuffs and raw materials; machinery and equipment imports fell off about 85 percent between 1959 and 1962. In November 1962, the Chinese Communists concluded a long-term trade agreement with Japan and throughout the year were actively contacting Western suppliers of industrial products, but few deals of any size or importance have been concluded as yet. China's foreign exchange position remained tight in 1962, but the regime managed to meet its obligations promptly.

D. Transportation

14. In 1962 all forms of transportation in Communist China appeared to be operating at about the 1961 level or lower, with the possible exception of coastal shipping, which is reported to have been more active during the latter part of the year. Although efficiency and capacity continued to be hampered by poor administration, low worker morale, insufficient and low-quality fuel, and lack of materials for maintenance, the transport system is apparently supporting the economy with less difficulty than in recent years, largely because decreased economic activity has greatly reduced demands on the system. The impressive earlier program for extending China's transportation network, which was abandoned in the collapse of the "leap forward," remained in abeyance during 1962. Except for construction on militarily significant roads in Yunnan and Tibet, there was little construction during 1962 on major railways and highways. Production of locomotives, freight cars, and trucks remained at very low levels. Maintenance and production of spare parts for transportation equipment probably improved little if at all.

E. Education and Science

15. In the fall of 1962, the regime drastically curtailed student enrollment at all levels and closed many substandard schools. As a result, some five million high school and college-level students were thrown on the already saturated labor market. This has caused great disappointment among students and their parents. The drastic decision to retrench was undoubtedly a difficult one for the regime to make; it was probably taken to avoid a further diminution in the quality of education, but it may eventually lead to even greater disillusionment and resentment.

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16. A comprehensive 12-year plan for science, which was to have run from 1956 through 1967, has been at least revised and possibly abandoned. In 1962, the regime began to woo the Western-trained scientists who had been ignored or suppressed during the "leap forward." Emphasis is now being placed upon quality in scientific training and research, and political interference in the scientific and academic community has been markedly reduced. The call for scientific support of agricultural development seems to be increasing.

II. PROSPECTS

A. Short-Term Prospects

17. The Chinese Communist leaders seem to have drawn confidence from having weathered the extreme crisis of the past three years and have entered 1963 in a mood of cautious optimism. However, they forecast no major increases in production in 1963, and are hoping for an "upsurge" in 1964 if all goes well, hinging on their success in securing further increases in grain output while restoring production of industrial crops. Their foreign trade negotiations also seem pointed towards 1964; their trade missions in western Europe have frankly stated that they are exploring equipment availabilities on which firm import decisions will not be taken before the fall of 1963.

18. While only modest economic growth at best is expected in 1963, the outlook for 1964 and 1965 is obscure. The generally depressed agricultural situation still colors the entire economic outlook, although, given average weather, further moderate agricultural recovery seems likely. The prospects are fair for restoring industrial crop production, and the resulting light industry expansion could increase industrial output by about five percent annually in 1964–1965. Even greater increases in industrial output might be secured if the regime can reorient its foreign trade to support a substantial expansion in capital construction. With an apathetic population, low food stocks, unsettled foreign trade relations, and heavy foreign debt service obligations, it seems unlikely that China can organize the domestic and foreign resources for a rapid increase in investment. But even without increased investment, greater utilization of presently idle capacity could increase industrial output by 5–10 percent a year in 1964–1965.

B. Future Economic Policy

19. Communist China's economic prospects depend heavily on whether the leadership in Peiping will postpone its goal of transforming China into a modern industrial and military power long enough to insure a safe margin in agricultural production. A Communist state has never before given first priority to agricultural development. The leaders

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have certainly been burned by the catastrophic failure of the 1958–1960 "leap forward" and will presumably be extremely chary of risking a repetition. The composition of the leadership's top echelon remains essentially unchanged, however, and its record is such that a return to radical, politically charged programs cannot be ruled out. The likelihood of a return to such programs will increase in the longer term if progress toward cherished goals appears to lag.

20. In November 1962, several high-ranking officials, including four Politburo members, were appointed to the State Planning Commission, which suggests that a high-level task force has been formed to draw up a Third Five-Year Plan. The plan, when and if it appears, is likely to be more of a political than a planning document, for the uncertainties confronting the regime would seem to preclude detailed long-term planning. Its goals are likely to be general and qualitative rather than specific, and the regime would probably view it as an important instrument for attempting to inspire confidence, unify the country, and galvanize support.

C. *Agriculture*

21. The regime intends to continue to give priority to agriculture, and Peiping appears to be thinking in terms of an agricultural modernization program that will require 20 to 25 years. Certain elements of this program seem reasonable and feasible for expanding farm output, such as the emphases on research and extension facilities, promotion of chemical fertilizer, electrification, and irrigation. Other pronouncements calling for rapid mechanization, strengthened collectivization, and "politics leading economics" could lead to adverse effects on farm output through inflexible management, lack of peasant production incentives, and a concentration on releasing rural manpower for industry.

22. Even if the reasonable elements in the leadership prevail, there still can be no speedy solution in agriculture. If increased supplies of chemical fertilizer and other inputs are to yield maximum results, they must be accompanied by improved varieties of seeds and improved farming practices. Research and extension services (and, above all, the trained technicians to man them) cannot be created overnight, nor can they be expected to bear fruit on any scale within less than a decade. Furthermore, it remains to be seen just how much effect the recent steps toward centralization will have on the crucial question of peasant incentives.

D. *Industry*

23. Current emphasis on industries producing goods for agriculture and for consumers is likely to continue for at least the next year or so. Some branches of heavy industry that cannot now produce enough to meet the requirements of the priority sectors of the economy are likely to

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industrial raw materials. Japan would represent a complementary trading partner for the Chinese, although Western Europe would be a keen competitor for the Japanese. Large-scale diversion of Chinese trade from Bloc to non-Bloc countries would involve initial costs to the Chinese of developing new markets for their exports and new sources for their imports, and would require costly and time-consuming adjustments to Western specifications for most machinery imports. More important, such a diversion of trade would place restraints on Chinese foreign policy, including the subordination of political goals in trade with Japan, and the willingness to supply technical data to foreign businessmen, to accept non-Bloc technicians in China, and to send Chinese personnel outside the Bloc for training.

27. The outlook for trade with Japan is obscure, in spite of the signing of a long-term trade agreement in November 1962. Japan could be a highly profitable market for low-price, bulky minerals such as salt, magnesite, coal, and iron ore that are hard for China to sell elsewhere. But erratic and unstable political relations have discouraged potential Japanese industrial users from regarding Communist China as a source for large quantities of such products. Nevertheless, Sino-Japanese trade has been rising slowly and may continue to expand.

28. Peiping would probably wish to reserve a substantial amount of foreign exchange for future grain purchases during 1963–1965, but during this period Peiping is obligated to liquidate a Soviet trade debt of about $500 million, and to pay nearly another $500 million on outstanding grain credits and on existing food purchase commitments. These figures suggest little margin for an increase in imports.

F. Education and Science

29. Although it has done much to correct damaging excesses in the fields of education and science, the regime now faces the difficult and delicate task of stretching the limited resources of the intellectual community to achieve immediate production results—in such fields as the mechanization of agriculture and the modernization of weapons. At the same time training and development programs of sufficient depth and scope must be undertaken to overcome China's backwardness across a wide range of disciplines. Communist China has isolated itself from much current scientific development throughout the rest of the world, except indirectly through scientific journals.

30. Communist China's research and development effort still suffers from a very critical shortage of scientific and technical manpower in the upper levels of competence and experience. Almost as critical is the shortage of experienced scientists capable of independent research but with abilities below those of the top rank; these are the men who form the main body of researchers in a mature scientific community. On the other hand, China is much better supplied with persons trained

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as technicians and highly specialized engineers. China had a great need for such types and has used them in providing technical services to the economy, particularly in engineering development work aimed at adapting foreign designs and processes to conditions in China.

31. The total number of college graduates by itself is impressive—over one million, with nearly 600,000 in scientific and technical fields, including medicine and public health. These figures in themselves, however, are not true indicators of China's research and development capabilities because the average quality of the graduates is not high. Communist China is believed to have some 2,000 to 3,000 highly qualified scientists in research and development. Among the scientific leaders and the main body of experienced scientists and technologists, there exists a useful degree of competence in practically all scientific and engineering fields. The regime thus has the resources to assemble a team of researchers competent to attack almost any objective, but not enough to man many teams effectively at the same time.

32. The regime's new attitude toward research and training is probably producing an improved environment for research and development and should permit reasonably effective scientific and technological support during the next few years.

G. Population

33. Regardless of what approach the Chinese Communists may take to economic recovery in the next five years, the population pressure on food resources will continue to be a major underlying problem. The rate of population growth averaged an estimated 2.4 percent from 1953 through 1958, slowed down to 1.5 to 2.0 percent in recent years, and probably will rise if average diets improve. Marxist doctrine would make it awkward for the regime to push an all-out birth control campaign. Even if this were not so, Peiping may feel it could do little to control the birth rate effectively, especially in rural areas where social beliefs are hard to change and medical services are poor. Since the spring of 1962, a low-key campaign has been conducted in urban areas to encourage late marriages and family planning, but this policy will have only a negligible effect on the national birth rate within the next decade.

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ANNEX B

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ANNEX B

ORDER OF BATTLE TABLES

TABLE 1

AIR FORCES
(As of 1 April 1963)

CCAF

TYPE OF AIRCRAFT	ROLE	NUMBER [a]	TOTAL
FAGOT (MIG-15)	Fighter (Day)	690	——
FARMER (MIG-19)	Fighter (Day)	60	——
FRESCO (MIG-17)	Fighter (Day)	815	——
FRESCO D (MIG-17D) [b]	Fighter (Day)	145	1,710
BEAST (IL-10)	Ground Attack [c]	40	40
BAT (TU-2)	Light Bomber, piston	100	——
BEAGLE (IL-28)	Light Bomber	175	——
BULL (TU-4)	Medium Bomber, piston	15	290
C46/C47	Transport	30	——
CAB	Transport	35	——
COACH	Transport	35	——
COLT	Transport	25	——
COOT	Transport	2	——
CRATE	Transport	45	172
TOTAL			2,212

CCNAF

FAGOT	Fighter (Day)	170	——
FRESCO	Fighter (Day)	70	——
FRESCO D	Fighter (Day)	30	270
BAT	Light Bomber	5	——
BEAGLE	Light Bomber	150	155
CAB	Transport	15	——
COLT	Transport	5	——
CRATE	Transport	5	25
MADGE	Reconnaissance	10	10
TOTAL			460

TOTAL AIR FORCE PERSONNEL 82,000

[a] Figures rounded to nearest five.

[b] FRESCO D has a limited all-weather capability.

[c] In addition, a unit of 30 MIG-15 (FAGOTs) is specially trained in ground attack. All FAGOT/FRESCOs are adaptable to ground attack, but have poor range and load-carrying characteristics.

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TABLE 2

NAVAL FORCES
(As of 1 April 1963)

SHIPS

TYPE/CLASS	TOTAL	ORIGIN	REMARKS
Old Destroyer/"GORDYY"	4	Soviet transfers	Obsolescent; built in 1941.
Destroyer Escort/"RIGA"	4	Chinese-built	Extensive Soviet technical and material assistance involved.
Submarine/"W"	21 or 22	Chinese-built	Extensive Soviet technical and material assistance involved. Completion of 4 units following Soviet withdrawal is believed to have been accomplished by the Chinese.
Submarine/"S-1"	4	Soviet transfers	Obsolescent; built in 1941.
Submarine/"M-V"	3	Soviet transfers	Coastal submarine. Obsolescent.
PATROL			
Patrol Escort/Various Classes	15	Taken over in 1949	All of WW-II (or earlier) design.
Submarine Chaser/ "KRONSHTADT"	25	6 units Soviet transfers; 19 units Chinese-built	Soviet aid needed for Chinese-built units.
Motor Torpedo/"P-6"	80+	Chinese-built	Soviet aid needed for Chinese-built units.
"P-4"	70+	Soviet transfers	
Fast Patrol Boat/ "SHANGHAI"	12	Chinese-built	Chinese design.
Motor Gunboat	44	Chinese-built	Some Soviet components used for Chinese-built units.
MINESWEEPERS			
Fleet Minesweeper/ "T-43"	14	12 Chinese-built 2 Soviet transfers	Soviet aid involved in Chinese program.
Minesweepers, Coastal (Old)	4	Taken over in 1949	US WW-II design.
Minesweeper, Auxiliary	20	Some Chinese-built; some taken over in 1949	Limited to in-shore minesweeping.

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TABLE 2 (Continued)

TYPE/CLASS	TOTAL	ORIGIN	REMARKS
AMPHIBIOUS			
Tank Landing Ship (LST)	20	Taken over in 1949	Obsolescent; US WW–II design; 9 additional LST's in merchant service.
Medium Landing Ship (LSM)	13	Taken over in 1949	Obsolescent; US WW–II design; 11 additional LSM's in merchant service.
Landing Ship Infantry (LSIL)	16	Taken over in 1949	Obsolescent; US WW–II design; 8 fitted for minelaying; 5–6 fitted as minesweepers; 5–6 fitted with rocket launchers.
Utility Landing Craft (LCU)	11	Taken over in 1949	Obsolescent.
Landing Craft Mechanized (LCM)	200	Chinese-built	
SUPPORT			
Auxiliaries/Various Classes	57	All but 3 taken over in 1949	All but 3 of WW–II (or earlier) design.
Service Craft/Various Classes	380	Mostly Chinese-built	Limited to inshore patrol and service craft.
TOTAL NAVAL PERSONNEL	80,000		

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TABLE 3

GROUND FORCES
(As of 1 April 1963)

	UNITS	ESTIMATED STRENGTH
Infantry Divisions	107	69 @ 15,000 38 @ 14,000
3 infantry regiments 1 artillery regiment 1 tank-assault gun regiment (in 69 divisions) 1 AA battalion 1 AT battalion Principal weapons: 24 light and medium field artillery pieces 39 x 57/76-mm AT guns 120 light and medium mortars 12 light AA pieces 32 medium tanks 12 self-propelled assault guns		
Armored Divisions	4	@ 6,600
2 amored regiments 1 infantry regiment 1 artillery regiment Principal weapons: 10 heavy tanks 80 medium tanks 14 self-propelled assault guns 20 light and medium field artillery pieces 12 light AA pieces 57 light and medium mortars		
Airborne Divisions	3	@ 7,000
Cavalry Divisions	3	@ 5,000
TOTAL LINE DIVISIONS	117	
Field Artillery Divisions	12	@ 5,500
	1	@ 7,000
	1	@ 7,800
3 gun or gun-howitzer regiments 1 AA battalion Principal weapons: 108 pieces 122-mm to 152-mm 12 light AA pieces		
Antitank Divisions	3	@ 3,400
4 antitank regiments 96 56-mm to 100-mm AT guns		
Antiaircraft Divisions	9	various
Border Defense and Military Internal Security Divisions	15	@ 7,000
TOTAL GROUND FORCE PERSONNEL	2,632,000	

NOTE: The Ground Forces are organized into 34 armies and a number of independent divisions and other units.

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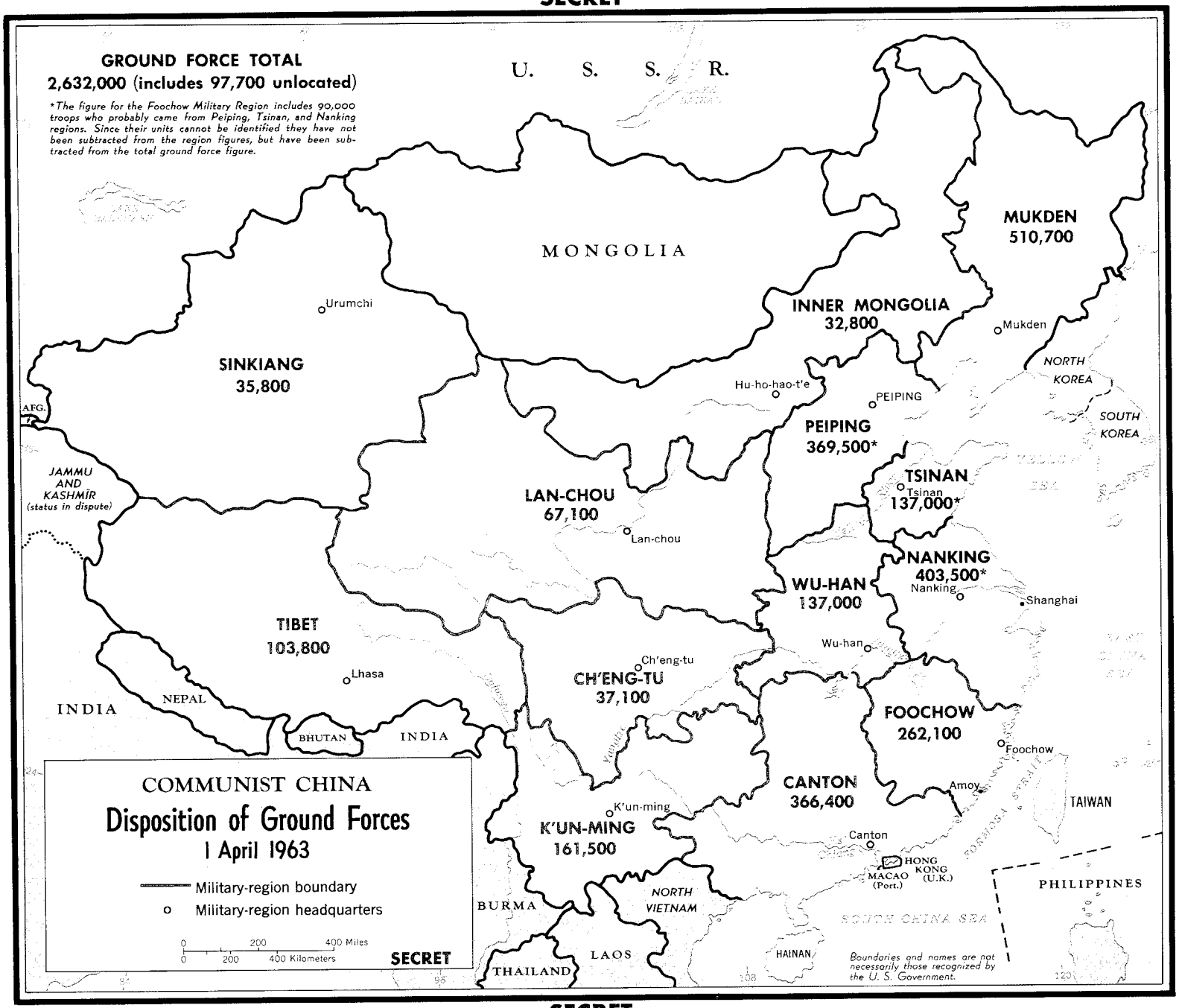

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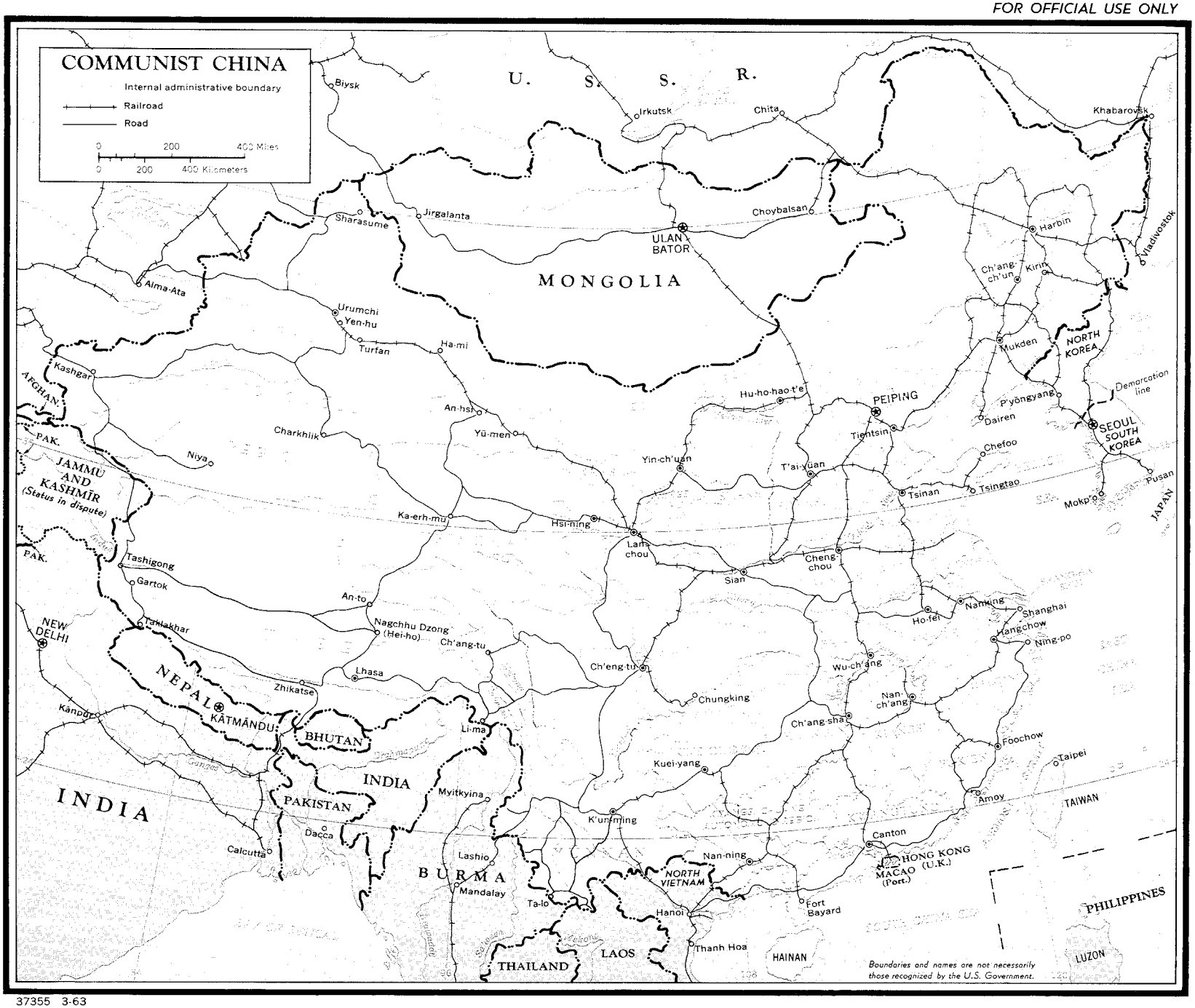

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